

A Work Project, presented as part of the requirements for the Award of a Masters Degree in
Management from NOVA – School of Business and Economics

DIFEL – FAMILY VS BUSINESS IN A FAMILY BUSINESS

MANUEL MARIA FEZAS VITAL DE SIQUEIRA

2551

A Project carried out under the supervision of:

Alexandre Dias da Cunha

6th January 2016

DIFEL – FAMILY VS BUSINESS IN A FAMILY BUSINESS

This case study is based on Difel, a small book publisher and family business. In a time of deep financial complications, family conflicts and unaligned views regarding the company's path are jeopardizing its continuation. This case is intended to demonstrate that decision-making and direction setting can be hard tasks in family businesses, as well as the impact of socioemotional wealth and the importance of procedural justice.

The teaching note provides guidance in order to accurately present this case in a classroom. It incorporates several discussion questions and its respective answers, which connect the case to relevant family business content and theory.

Family business, decision-making, three-circle model, socioemotional wealth, fair process.

Part A

It was another stressful morning for Rita. She walked through the large hall with offices on both sides, realizing her brother Pedro had not yet arrived. She felt an instant relief, sat down at her desk and started going through emails.

It was the Spring of 2003 and Rita had been the CEO and majority shareholder of Difel, a small book publisher operating in Algés, for the last ten years. Rita owned 67% of the company and the remaining percentage was held by non-family partners. At that time, the company had fifteen employees of which three were Rita's close family. Miguel was her brother and the first relative to join Difel, in 1996, as editorial director. Pedro, another brother, joined in 2002 as commercial director and Filipe, her nephew, came for a professional internship also in 2003 and was hired shortly afterwards.

The office wasn't big, yet very appropriate for a small company. In that cold morning when Rita was hectically reading her emails, she couldn't concentrate. Pedro's office was right next to hers, and despite him not having arrived yet, the anticipated proximity was enough to make her feel anxious.

Months earlier, Pedro purchased an ERP¹ software that he believed was indispensable for Difel to make it to the next step. That software was a costly investment that demanded complicated adjustments and numerous company resources. Not viewing this acquisition as the best application, not only for the substantial investment it represented but also its complexity and long implementation, Rita opposed its purchase. Pedro, with the support of the other shareholders, conducted its implementation nonetheless, which created a tense

¹ Enterprise resource planning (ERP) is a process by which a company manages and integrates the important parts of its business. An ERP management information system integrates areas such as planning, purchasing, inventory, sales, marketing, finance and human resources.

environment at Difel.

The situation endured and it became clearer each day that things were getting worse. Several problems with the implementation of the software were occurring, with significant costs accumulating for the company. With pressure on her shoulders, Rita could not perform her responsibilities efficiently, as she felt this issue was starting to impact the rest of the employees and family.

"This has gone far enough", Rita thought to herself, saturated from all the arguments with Pedro. At this point, Rita was considering whether or not firing her own brother was the right decision.

The beginning with Manuel Bulhosa

Manuel Bulhosa was born in 1905 in Lisbon. He was a well-known entrepreneur that became a millionaire through his oil ventures and invested in numerous areas. During his life, Manuel created and bought businesses in agriculture, tourism, editorial publishing, among other fields. He is mostly known for founding the Portuguese oil company Sonap, which later on merged with other firms and formed the current market leader Galp.

Manuel created Difel in 1982, which was led by several managers until he invited his goddaughter, Rita, to join in 1993. She had had experience in the field, having already worked with Manuel at Bertrand² publishing house for several years. Rita's passion for books and fluency in English, French and Spanish were great assets for a publisher whose core business was foreign literature, and she became majority shareholder and CEO of Difel that same year. The remaining share belonged to family members of Manuel until it was purchased by the

² Bertrand is the oldest and largest bookstore chain in Portugal, which was launched in 1732.

firm RES³ in 2002 (see exhibit 1).

The golden years 1993-2002

When Rita arrived at Difel, the company had already developed a quality catalogue of mainly international authors, which was its core business (see exhibit 2).

It specialized in literary fiction and great names of the universal literature such as Marguerite Duras and Jorge Luis Borges, among many others, were translated and made available to the public. Also, new authors such as Isabel Allende, Amin Maalouf, Marion Zimmer Bradley, and Umberto Eco had their first novels published in Portugal through Difel.

The following 10 years, Difel maintained the same strategy. Back then, the company's structure was almost exclusively the editorial department (see exhibit 3). One of Rita's tasks, as head of this department, was to search foreign authors and novels that fit Difel's editorial lines, and make contacts in order to represent those books in Portugal. This meant she had to analyze catalogues from international publishers and read manuscripts and books submitted by agents⁴.

In 1996, Rita hired her brother Miguel to help in the editorial department. Whereas Rita had a taste for more commercial books, Miguel's orientation was much more literary. In some situations, Miguel chose books whose authors would, many years later, end up receiving the Nobel prize, as was the case of Herta Müller. Despite the indisputable quality of these books, they weren't generally good sellers, and Rita often thought that Miguel's taste was too erudite for Difel's readers. Nevertheless, considering her brother's qualities and eager to help him out, Rita employed him at Difel for many years to come.

³ A service provider in the pharmaceutical industry.

⁴ Companies or people that represent the authors.

After signing the contract with either the agency or the author, Difel organized the production, where all the necessary services – the translator, reviewer, printing processes, among others – were outsourced (see exhibit 4). At this point, Difel did not own a warehouse and sold an agreed upon quantity of books to its distributor, Diglivro, which would then sell to all bookshops⁵ spread throughout the country. Difel managed to keep a profitable business during all those years precisely because it didn't need to conduct distribution, thereby concentrating most of its efforts in the editorial functions. The financial-commercial director, along with a team of two people, provided the necessary support, conducting and controlling sales.

In this business, the relationship between publishers-authors and publishers-agencies is absolutely key, and it was also one of Rita's strongest sides. She developed great relationships with Difel's authors and agencies, Carmen Balcells in particular (one of the biggest international book agencies which represented about one third of Difel's catalogue), whose loyalty in the rough years to come would be the only thing keeping Difel on its feet.

Diglivro's crash

The most impactful event to shape Difel's history was its distributor's bankruptcy in early 2002. This event brought Difel losses in the amount of 371.000€ - around 20% of its turnover –, from which the company would never fully recover. In the sequence of this incident, Rita had to make a very important strategic decision: either Difel closed doors, or severe changes in the organization would have to be made in order to develop its own distribution. This meant that Difel would have to shift from having one single client, Diglivro,

⁵ The term bookshop is a simplification. In reality, the points of sale included bookshops, supermarkets, stationary stores and other retailers, totalizing 3500 stores.

to having 3.500 clients (the bookshops), and needed to expand its structure in order to support that.

Time was short and pressure on Rita's shoulders was enormous. Given her attachment to Difel, she wanted to ensure it had a future. On the other hand, Rita doubted her ability to conduct all the necessary changes. As she often said, she was a publisher and not a manager.

Feeling overwhelmed by the responsibility, Rita often thought of her godfather. Manuel had passed away four years earlier and would have certainly known what to do. "What would he have suggested?", Rita thought time and time again. She called her brother Pedro and asked him to come to Difel. "I want you to help me develop a commercial department".

Pedro's arrival in 2002

Pedro was a very creative and hardworking person with a degree in architecture. He had had experience in commercial areas, although none in the book sector. There were several concerns in Rita's mind when asking Pedro to join Difel, the most important one being the fact that their relationship wasn't easy-going. With a difference of two years, Rita being the eldest, she knew her brother's temper was often hard to deal with, and he tended to discard other people's ideas.

On the other hand, Rita had had some bad experiences in the past trusting people she did not know. One relative of the founder acted on Rita's back, creating a publisher of his own while being a partner and working at Difel. To avoid going through such issues again, she decided to assign the task to someone she trusted.

With Pedro in charge of building up logistics for Difel, Rita was able to focus on what

she did best - the editorial role. Although having a decisive vote on matters, given her position as the majority shareholder, she generally allowed Pedro to make his own decisions. She trusted her brother's intuition regarding business ideas, whereas he trusted Rita's knowledge and capacity to deal with people.

Over the following months, Pedro developed the commercial department and staff more than doubled. With a team of salespeople selling to all bookshops, a warehouse to store the inventory and tons of new equipment, Difel was walking in unfamiliar territory all along.

RES as the new shareholders in 2002

When Pedro was hired, the minority shareholder was still family of the founder that wasn't interested in the business and wanted to sell its part. Having very strong ties with RES' top managers, Pedro proposed they purchased this stock. Trusting Pedro's judgement and viewing Difel as a good investment, RES became a shareholder that same year.

Executive meetings took place about three times a year. These meetings, as Rita described them, were very informal and friendly-like. However, she soon became aware that the vision RES had for Difel didn't fit the reality of the company, which could become a big problem. Constant divergences of opinion between Rita and RES emerged and diffculted decision making. Pedro generally found that his vision was more aligned with RES' than his sister's, which singled out Rita's voice on matters.

Difel's financial struggle

Diglivro's bankruptcy created an enormous financial hole. Difel was permanently in dire straits trying to fulfil its obligations with authors, agencies and suppliers, but it was

somewhat impossible. Loans were contracted and financial ties to creditors jeopardized investments in new authors. Rita knew that keeping authors was the only way for Difel to survive, therefore that had to be the company's top priority.

Business groups in the area of publishing were not yet sufficiently strong in Portugal, but the two actual major ones – Porto Editora and Leya – were buying and saw an opportunity in the bankruptcy of Diglivro, which had serious consequences on many other small independent publishers. Their financial capability gave them huge advantages on negotiations for new books (see exhibit 5). Difel's fragility didn't go unnoticed by international agents and authors, which began to favor those publishers in detriment of Difel.

Furthermore, due to its small size, Difel's revenues varied a lot from one year to the next (see exhibit 6), depending on the books published and whether or not the top selling authors had a release that year. For that reason, revenues were extremely volatile and the dependence on its authors very high.

With new projects becoming rarer, alternatives had to be considered. The company turned towards publishing reeditions of best-sellers with new covers. This strategy required little investment (see exhibit 7) and had its benefits, but it was short-sighted. "We're trying to heal an open wound with a band-aid", Rita often told her brother Miguel. She often had to go through the hard task of convincing authors not to shift publishers, arguing she needed a bit more time. It was at this point that authors and agencies' consideration for Rita started playing a crucial role. It was for sheer loyalty that Umberto Eco, Isabel Allende and several other top sellers didn't change publishers.

The conflict over SAP

While the company struggled with those problems, Pedro continued to develop the sales department and work with the new team. Everything seemed to be going smoothly, and Rita was pleased. It was then necessary to find an ERP software that connected all departments. RES suggested the implementation of the software they used, SAP. It was the top-notch system for large firms⁶, and incorporated thorough data analysis tools.

Pedro and RES' managers strongly valued each other's business inputs. When RES suggested the implementation of SAP, which had proven to be very efficient there, Pedro was immediately motivated to implement it at Difel.

Rita, on the other hand, believed it was a bad investment all along and that a much simpler and less expensive alternative was more appropriate. The software required an initial cash disbursement of 250.000€ (see exhibit 8), plus maintenance costs of around 10.000€/month. She also believed RES and Pedro were failing to see the difference between the two companies: RES was a multi-million-euro firm dealing with hundreds of different products, to whom such a software was an added value. Difel, however, was a small publisher facing serious financial problems and selling one product alone - books. Rita and Miguel agreed that, probably due to the fact that RES was used to deal in the seven digit figures, their vision for Difel was misplaced. "They aren't familiar with this business and they want to transform a business of pennies into a business of millions...", Miguel commented.

The software issue was a topic broadly discussed in the executive meetings, and its purchase went through in spite of Rita's objections. She always felt this decision slipped through her fingers and that her expertise on the field was severely undervalued.

⁶ Some examples of companies using SAP to run their businesses are IBM and Microsoft.

SAP's implementation going wrong

SAP was implemented in the last trimester of 2002. It was only after its purchase that Pedro's team understood the migration of the data from Difel's previous software to SAP was impossible. Thus, all client data from 1998 to 2002 could not automatically be transferred from one system to the other. Since analyzing that data was one of the main arguments in favor of SAP, a team of students was hired to introduce everything in excel files, which would then be transferred to SAP. It was intensive handwork that had to be done within fifteen days. Later on, it was discovered that huge mistakes had been made, and no reliable analysis could be retrieved.

Also, during the process of implementing the new system, several complications occurred. For months, Difel had to frequently purchase the expensive services of a consultancy firm specialized in SAP assistance. Even then, however, the software didn't function properly, and its full potential wasn't being exploited.

Tension between Rita and Pedro

Rita was frustrated to see where her company had landed. Arguments between her and Pedro became more frequent and were creating a terrible work environment. If there had been problems with her brother before, now the relations had worsened, and all this was reflected on the employees and the company.

Difel's situation continued to deteriorate and Rita no longer knew what to do. She had no one to talk to and Pedro, backed by the other shareholders, still thought he was on the right track. It felt like she was losing control of her own company, and Rita regretted the decision of hiring her brother in the first place.

The Spring of 2003

It was 9:15 am and Rita was quietly sitting at her desk weighing her options for the millionth time. Once again, she came across a conflict regarding what was best for the company and what was best for the family.

Removing Pedro from Difel would be the right decision, but she could never go through with it. Despite having the institutional powers to do so, that decision most likely carried irreparable damages to the family - it certainly carried irreparable damages to their relationship. Also, her partners valued in Pedro what they believed she lacked: management skills. They thought his business vision was right, and would never accept his dismissal.

Although difficult, in view of the different business visions, for the good of the family and the company, trying to reach consensus was the only solution. Her brother, Miguel, her nephew, Filipe, hoped a new path could be found for the house that everyone loved so much. Moreover, despite knowing Pedro would never admit that purchasing SAP was a big mistake that aggravated the company's situation, Rita believed he was aware of it, and blamed himself. Hence the commitment and dedication with endless hours of work trying to correct the incorrigible.

Whilst Rita couldn't stop thinking about these problems, perhaps she didn't realize that her decision had been unconsciously made a long time ago. It was probably taken the moment she hired Miguel to assist in the business even though she already conducted the editorial role, or when Filipe was brought in straight from college for a professional internship, or Pedro being asked to develop the commercial department instead of someone with experience in the field. Rita had imbedded in her the irresistible care for her family.

Part B

The nightmare of SAP's implementation haunted Difel for over one year. Only with the arrival of a new financial director, in 2004, did the program start functioning, although always at a limited level.

At that time, Pedro and Rita hardly communicated. It was as though the commercial and the editorial departments were two different companies.

One of Pedro's strongest qualities was his motivation to pursue new ideas, but what he bore in charisma he lacked in discipline to follow ideas to their completion. He was a great outside-the-box thinker, but a bad implementer. The commercial department often developed projects that would soon be cast aside, never giving a proper direction to the company.

In the editorial department, Rita kept focusing on managing relationships with agents and authors while trying to bring some new projects to Difel, although her margin to negotiate was very little. The company had to borrow money from shareholders in order to pay for advances and copyrights. Through a capital increase, Difel was able to postpone its situation for a while. A new Isabel Allende novel was released in 2005, which elevated the spirits. These efforts, however, weren't sufficient, and Difel needed an investment partner who was able to take on the liabilities and give it capacity to pursue new authors, so it could grow. Otherwise, it would just be repairing old wounds with no perspective on moving forward.

In an attempt to find a solution to Difel's problems, Rita worked with the financial director for several months on a detailed plan to restore Difel, which demonstrated the company was a viable project. The strategy required a considerable investment from the shareholders and, in late 2005, Rita presented the idea to them. It was rejected with the explanation that they didn't want to put more money into Difel. It was also at that time that

the alternative of selling the company was brought up.

A bit earlier, Rita had to make some sacrifices of her own. With total belief in Difel's recovery and driven by her emotional connection to the company, she wanted to maintain her majority position. In order to do so, Rita had to come up with enough to accompany her partners in the capital increase. Having nowhere near the necessary figure, she mortgaged her house in the amount of 134.000€ and invested all of it in Difel.

When the other shareholders rejected her plan and proposed selling Difel instead, Rita was tied up with debt and agreed it was the only solution.

Almedina

Almedina was the first publisher to make an offer (see exhibit 9), in 2006, which complied to all the requirements Difel had made.

Rita was excited about this alternative. Almedina wanted to keep her along as Difel's editorial director, and also a big part of the staff. They had a great reputation and, despite their core business being superior education books, the product was similar. Their goal was to expand to new genres, and Difel represented a great opportunity for that. Almedina also had a chain of bookstores of their own, which could become a great selling point for Difel.

Almedina's proposal was accepted in July. Rita was relieved and believed the company was on the right track. However, one month later, her partners changed their minds. They requested an alteration to the offer, which was called the "back door". This clause gave Difel the right to refuse the proposal even after the due-diligence⁷, and Almedina was strongly opposed to it (see exhibit 10).

⁷ The investigation of a business prior to signing a contract.

Time was running short since, after a long wait and much patience, agents had given Rita a deadline. Difel had until the end of December to pay a significant portion of its debt, otherwise they would shift publishers. Rita didn't understand the sudden change in the other shareholders' minds, and was frustrated. Her desire to act against them and accept the original offer was stronger than ever, but she couldn't do it. Instead, Rita spent the following weeks desperately trying to persuade Pedro and RES into retrieving the "back door" clause, but with no success.

Much to Rita's disappointment, no further contact was made with Almedina and she was devastated her partners had turned down that opportunity.

Medialivros

After losing Almedina, Rita's relations with her partners and with Pedro deteriorated even further. In addition to the emotional distress of Difel's potential bankruptcy, which seemed the most likely scenario, Rita was extremely concerned about her own financial situation. With a small kid to take care of, if the company didn't survive, Rita would become unemployed with no compensation. What worried her the most, however, was she might lose her house – if Difel defaulted on its payments, the bank could seize her assets.

Shortly after Almedina's offer expired, a new opportunity arose with the group Medialivros - a subsidiary of Inapa, a European leading group in the paper industry - proposing a merger. Medialivros' core business was art and facsimile⁸ books. That offer was brought in by RES, that had good relationships with Inapa and thereby strongly supported the merger.

⁸ A copy of an old book, manuscript, or any other item of historical value, that is as true to its original source as possible.

Rita, however, didn't. Medialivros' product was totally different from Difel's (see exhibit 11), and the selling points were distinct - Difel sold to retailers whereas Medialivros had direct sales to the final customer, generally companies. Also, they were as much indebted as Difel, with a much tougher product to sell. What disappointed her the most, however, was the thought that her partners could have intentionally disrupted the deal with Almedina in order to ensure this one went through.

Although dissatisfied with this partnership, Rita had to accept. The agents' deadline was closing in and there weren't any alternatives. The only thing that reassured her was Medialivros bringing in a "silent investor", who would cleanse the past so the group could grow. But, at the last minute, that investor withdrew, and Rita never knew who that person was. If she had been worried before, now she was in despair. There wasn't time to find a new partner and Difel, the life-project she had sacrificed so much for, was really going bankrupt.

Then, the shareholders of Medialivros proposed contracting a new bank loan in the amount of 2 million euros, with which they would repay shareholders' prior loans and settle a portion of the debt to agents and authors.

"More debt", Rita thought. A new group is about to emerge already indebted in 2 mill".

Teaching Note

Overview

The case focuses on Difel, a small Portuguese book publisher and family business fighting to survive. The bankruptcy of its single distributor brought Difel significant losses and demanded changes, namely starting to distribute to bookshops itself. Rita, the CEO and majority shareholder, hired her brother Pedro to lead that process. Conflicts between Rita and Pedro escalated when Difel's minority shareholders suggested the implementation of a very costly software. Although Rita disagreed on the program's benefits, Pedro believed it was appropriate, and conducted the implementation of the program in spite of Rita's objections. The environment became tense and Rita was worried that, with her brother taking decisions, Difel was being led the wrong way. She was considering firing Pedro and weighing the consequences that decision carried to the family and business.

In section B of the case, the implementation of the software was a disaster. Rita kept Pedro in the company, but their relationship was very dysfunctional and lacked communication. Financial troubles aggravated and everyone knew selling the company was the only course of action. Two propositions were made, but Rita and her partners strongly disagreed on what Difel's path should be.

Target Audience

This case is recommended for family business courses in an Undergraduate or Master Program. Students are expected to be familiarized with the main differences to non-family companies, as well as concepts such as the three-circle model, socioemotional wealth in family-owned businesses, fair process and agency costs.

Learning Objectives

- Understand how relational conflicts can affect decision-making in a family-business and the increased complexity of dealing with those conflicts.
- Apply the three-circle model and conclude that boundaries between family, ownership and management are not always clear in family businesses.
- Understand the importance of procedural justice.
- Learn how socioemotional wealth preservation can influence risk-taking behaviors.

Discussion Questions

Part A

- 1- Despite Rita's position as majority shareholder, that allowed her to have decisive vote on matters, she often became discontent with the path Difel was taking. What factors diffculted Rita's role-taking as the main decider of the company?**

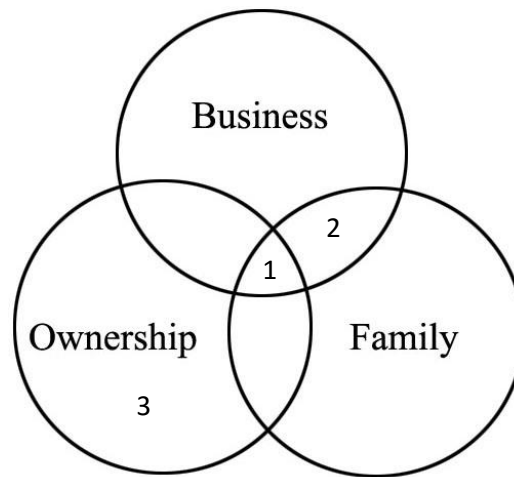
The instructor should draw three circles model (Tagiuri & A. Davis, 1982) on the board and apply it to this situation. The drawing needs to differentiate the three social systems – family, business and ownership – and place Rita, Pedro and RES in each one's respective area (see the image below). As opposed to most non-family businesses, where role distinctions are clear, this was the case of blurred boundaries. The three systems aren't isolated from each other and (Poza, 2007) describes blurred boundaries as the mutual influence of the social systems, which is common to family-businesses. Pedro, that belonged to both the family and the business spheres, was overstepping his position by getting involved in strategic decisions, hence influencing the ownership system. His close relationship to Difel's minority shareholders and the fact that they supported his ideas provided him with the

necessary incentive to act as he believed the company would benefit the most. Rita, whose view wasn't aligned with her brother's, couldn't treat him as any other employee given the strong emotional component of their family relationship. Emotional relationships have a powerful influence on every aspect of our lives and are a key influence on our behavior and decisions (Scott-Jackson, Mogielnicki, Charles, & Haddish, 2015).

Still, another factor has to be taken into consideration when analyzing why Rita didn't make a stronger opposition to her brother. It has to do with the particulars of her relationship with Pedro, and the concept of chronic anxiety. According to (W. Kaslow, 2006), chronic anxiety can be shown in a wide range of behaviors, from emotional reactivity, in which the family goes from one crisis to another, to a very placid family atmosphere in which conflict is avoided at all costs. Rita and Pedro have shifted from the first situation to the second. At first, several conflicts occurred due to their differences of opinion, which resulted in arguments and a bad work environment. To compensate that, Rita took a conflict avoidance mentality, which peaked in the section B of the case. There, Rita and Pedro hardly ever communicate and the editorial and commercial departments are acting as two separate companies.

To finalize, the concept of self-differentiation is also relevant to mention. It is fully connected to anxiety, as poorly differentiated families tend to be chronically anxious (W. Kaslow, 2006). Murray Bowen's Family Systems Theory defines differentiation and its antithesis, fusion, as terms to describe the extent to which people are able to separate their emotional and intellectual spheres. In other words, highly differentiated individuals have a higher control over their (otherwise emotional) responses. Rita's incapacity to calmly deal with Pedro indicates some degree of fusion, whereas a more differentiated person could have had more rationally-based responses.

- 1- Rita
- 2- Pedro
- 3- RES



2- Describe the various perspectives regarding SAP's purchase. Analyze the purchasing decision in light of the fair process framework, mentioning the five steps that comprise a fair decision process.

In this situation, which began with the necessity to implement an ERP software that accompanied Difel's recent developments, Pedro purchased the expensive program SAP that Rita was opposed to. She believed, given Difel's financial issues, as well as its size and the fact it had only one product, that SAP was a megalomaniac purchase, and therefore desired a cheaper solution with less functionalities. Pedro, supported by Rita's partners, didn't properly consider his sister's opinion. The concept of fair process explains that, when someone considers a given process to be fair, that person will more easily accept and be satisfied with the resulting decision, regardless of the outcome. In family businesses, procedural justice plays an increasingly important role given the emotional component of the relationships involved. "The remarkable result of fair process in family firms is that it improves both the economic performance of the business and the satisfaction and commitment of family and nonfamily individuals involved with it" (Blondel, S. Carlock, & Van der Heyden, 2005). On the other hand, its lacking of can be destructive.

Given the five steps that a decision-making process perceived as fair is comprised of (Blondel, S. Carlock, & Van der Heyden, 2005), several missteps occurred. Firstly, the reasons behind the purchase of the software were never well framed and agreed upon. Rita believed Difel needed a program that allowed its basic functioning, whereas Pedro desired a much more sophisticated option. Secondly, it seems that Pedro opted for SAP simply due to RES' recommendation without (critically) questioning whether or not it suited the company. With no alternatives being considered, SAP is a somewhat misinformed purchase. Rita, that was one of the most important deciders, had her opinion disregarded. The implementation of the program was disastrous, with numerous complications arising and a late discovery of incompatibility issues with the previous software that was poorly handled – Pedro hired a team of students to input years of data into excel files by hand. Finally, the subsequent evaluation of the SAP's decision process and implementation wasn't made, with Pedro never recognizing it as a mistake. The lack of procedural justice in this decision, alongside the severe consequences it carried to an already fragile business, deteriorated Rita's trust in her brother and created perpetual communication issues between them.

Part B

- 1- Explain the importance of socioemotional wealth preservation in family businesses and identify one situation in which Rita's actions were driven by her desire to preserve SEW, using the FIBER model to support your answer.**

Family and non-family businesses act differently (R. Gomez-Mejia, Cruz, Pascual, & De Castro, 2011), and the concept of socioemotional wealth provides a valuable explanation as to why those changes in behavior exist. Several times during the case, Rita takes decisions

that are not financially based and that may not make sense from an objective point of view. (R. Gomez Mejia, Cruz, & Berrone, 2012) explain that family firms consider the preservation of SEW alongside financial factors and, therefore, decisions that may seem unprofessional might be motivated by family-owners' desire to preserve their SEW.

Students should identify Rita mortgaging her house in order to invest in Difel as a decision that was driven by her desire to preserve SEW. At that time, other shareholders were providing capital with the objective of repaying some of Difel's debt to authors and suppliers. Rita, that lacked money to put in, needed to find a solution in order to maintain her majority position. This is a clear example of SEW preservation becoming a priority and influencing a risky decision from a family-business owner. When there is a threat to the (emotional) endowment, the family is willing to make decisions that are not driven by an economic logic (R. Gomez Mejia, Cruz, & Berrone, 2012) Considering the FIBER model, which comprises five dimensions of SEW, the following components are most relevant in this situation:

- Family control: Rita's desire to maintain her role as majority shareholder and main decider is what drove her to take such a risky measure. There were no financial motivations in her decision.
- Identification with the firm: Rita felt Difel's success reflected hers, and valued her name being associated to the company's respected image.
- Emotional attachment: Difel was Rita's life project and she wanted to ensure it had every chance of succeeding. Furthermore, she had the responsibility of employing two brothers and one nephew. Protecting Difel was important beyond a personal point of view, because its failure would bear direct consequences to family.

2- Rita's motivations behind the decision to sell Difel were different than her partners'. Explain those differences and how they influenced the selling decision.

Were there agency costs in this situation?

Rita's perspective was beyond a CEO and owner of the business, it incorporated a strong emotional attachment and the desire to maintain SEW. The solution that was optimal for Rita was one where the continuation of Difel was ensured and its culture, staff and methods, protected. Rita defended Almedina's offer because she identified herself with them and believed it was a great option in terms of SEW preservation. On the other hand, RES' shareholders had different motivations. Not being involved in the business or the family, they viewed Difel as a financial asset. Their priority was to recuperate the investments that had been made, and ensure future financial rewards. For that reason, they preferred going into business with Medialivros that, despite manufacturing a distinct product and lacking the financial capacity for the merger to go through, was still a subsidiary of the paper market leader Inapa, a company that RES knew well and had relationships with. Agency costs are incurred if there is room for opportunistic behavior and interests of owners and managers diverge (Schmid , Ampenberger, Kaserer , & Achleitner , 2008). Classical agency theory argues that family owner-management promotes communication and cooperation within the firm and guards against opportunism (S. Schulze, H. Lubatkin, & N. Dino, 2003), thereby those costs generally being lower in family owned businesses when family is involved in both ownership and management, with the alignment of the visions being easier across the two spheres. In this case, however, the situation is more complex given the interaction of a non-family partner in the ownership sector, which led to agency costs between shareholders that weren't mitigated by Difel's family business nature. It is a very specific case, aligned with

research that defends family-owned and managed firms appear to experience agency problems that are costly to mitigate (Donovan, 1995).

As to better understand the agency costs involved, students should read the epilogue of the case, which describes Difel's short future after the merger.

Teaching Plan

The first stage for teaching this case is to have students individually read and reflect on section A, prior to class.

As to focus students on the most important topics, the professor can begin with a short summary of the case (10 minutes). The highlights should be explaining Difel's business, its financial issues, Pedro's arrival and the software purchasing decision. The teacher should then pose the two discussion questions that regard section A, asking for volunteers, while drawing the respective models on the board (20 minutes). Afterwards, students should be given section B of the case and read it (10 minutes). The two discussion questions relative to this section should then be posed (20 minutes).

In the final 10 minutes, students should be provided with the epilogue of the case, along with Rita's resignation letter. The teacher can wrap-up the case reinforcing the concept of socioemotional wealth and connecting it to Rita's letter.

Case introduction	10 min.
Section A discussion questions	20 min.
Reading section B	10 min.
Section B discussion questions	20 min.
Wrap-up	10 min.

Epilogue

In 2007, Difel left its small headquarters and moved to Medialivros' offices in downtown Lisbon. At that point, it ceased to be a family business, with only two family members being kept in the business, Rita and her nephew Filipe, and Rita owning a share of 16.4%.

In order to secure the relationships she had built with agents and authors throughout the years, Rita was kept as Difel's editorial director. Pedro left the company right before the merger without, at that time, his relationship with Rita having been mended. There wasn't room for Miguel in the company after the merger, which was another sensible matter. Rita and Pedro were able to get him a suitable compensation but, still, the hard task of firing Miguel was not well received in the family and damaged relationships that would only be recovered many years later. Several of the employees that had worked passionately at Difel were let go without any compensation, which was another burden for Rita.

The money that was injected into the company served to relieve shareholders, pay some debt to suppliers and patch things with the authors for a while, but it didn't address the core issues the company was going through. During the following years, new ideas more aligned with a strategy of little investment were developed. Sadly, those efforts were insufficient. By 2009, the wearing out of the relationships between Difel and its authors/agents was too extreme, and no one trusted Difel with a new book any more. The little contact that still existed was to ask for compliance with the debt payment plans.

In March of 2010, unable to endure the deterioration of her company any longer, Rita resigned. She left the editorial department in the hands of her nephew Filipe, but Difel closed doors later that same year.

Rita's resignation letter (final part, as written by Rita)

- It is my full conviction that Difel could have had a positive path, maintaining its team, its excellent relationships with agents, its highly-regarded catalogue of authors, and its identity. Beyond having saved enormous pain to its shareholders.
- I fought for what I thought was best for Difel, in the amount that I could and was allowed to fight, but the barriers that were created, won! The merger with Medialivros went through.
- There is no doubt that Difel and I were the ones that had the most to lose, and lost.
- My role as Difel's editorial director was performed with the utmost seriousness, loyalty and dedication.
- I didn't have the opportunity to say goodbye to all the authors and agents, neither to thank them for the hope and trust that they dedicated to us for so long, in order not to deteriorate the situation with the knowledge of my retrieval.
- It was extremely painful for me to separate myself from Difel, because it was a life project accompanied by an enormous emotional attachment. I have no chance of ever investing in Difel again.
- I was alerted that the new management team couldn't go through with the recovery of Difel, the financial crisis did not help.
- Worn out and with the deepest of sorrows, I believe closing down this house to be the solution!

REFERENCES

- Berrone, P., Cruz, C., & R. Gomez Mejia, L. (2012). Socioemotional Wealth in Family Firms. *Family Business Review*.
- Blondel, C., S. Carlock, R., & Van der Heyden, L. (2005). Fair Process: Striving for Justice in Family Business.
- Donovan, K. (1995). Just one tiny share can make a difference.
- E. Dana, L. (2015). Exploring key family business success and continuity factors. *Australia's Family Business 17th Annual Conference*.
- Kelms, B. (2014). Obtido de Writer's Digest: <http://www.writersdigest.com/online-editor/how-book-advances-work-a-simple-explanation-for-writers>
- Mauborgne, R., & Kim, W. (2003). Fair Process: Managing in the Knowledge Economy. *Harvard Business Review*.
- Mogielnicki, R., Charles, L., Haddish, R., & Scott Jackson, W. (2015). Emotion in Family Businesses: Utilise the Positives, Resolve the Negatives!
- Poza, E. (2007). *Family Business*.
- R. Gomez Mejia, L., Cruz, C., & Berrone, P. (2012). Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research. *Family Business Review*.
- R. Gomez-Mejia, L., & Kalm, M. (2016). Socioemotional wealth preservation in family firms.
- R. Gomez-Mejia, L., & Siegfried Mendoza, M. (2015). The pursuit of socioemotional wealth in family controlled firms.
- R. Gomez-Mejia, L., Cruz, C., & Berrone, P. (2012). Socioemotional Wealth in Family Firms.
- R. Gomez-Mejia, L., Cruz, C., Pascual, B., & De Castro, J. (2011). The Bind that Ties: Socioemotional Wealth Preservation in Family Firms. *The Academy of Management Annals*.
- R. Gomez-Mejia, L., Haynes, K., Núñez-Nickel, M., Jacobson, K., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms.

- S. Schulze, W., H. Lubatkin, M., & N. Dino, R. (2003). Toward a theory of agency and altruism in family firms.
- Schmid , T., Ampenberger, M., Kaserer , C., & Achleitner , A.-K. (2008). Family firms, agency costs and risk aversion - Empirical evidence from diversification and hedging decisions.
- Scott-Jackson, W., Mogielnicki, R., Charles, L., & Haddish, R. (2015). *Emotion in Family Businesses: Utilise the Positives, Resolve the Negatives!* . Tharawat Special Features.
- Stewart, A., & A. Katz, J. (2010). *Entrepreneurship and Family Business*.
- Tagiuri , R., & A. Davis, J. (1982). *Bivalent Attributes of the Family Firm*. Family Business Review.
- V. Rabstejnek, C. (s.d.). *Family Systems & Murray Bowen Theory*.
- W. Kaslow, F. (2006). *Handbook of Family Business and Family Business Consultation: A Global Perspective*.